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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Energy Use Is Rising . . .

Spurred by the robust business recovery and lower prices, U.S. consumers and industry alike have revived their appetites for petroleum. Following five years of nonstop decline, U.S. oil demand rose 3.7 percent during the past ten months, compared with year-earlier levels. But despite this turnaround in consumption, imminent price increases are unlikely. Although prices of some products shot up earlier this year in response to the extremely cold weather, the longer-term fundamentals which prevailed over the past year have not changed much. World supplies remain plentiful, while demand—hampered by hesitant recoveries overseas and high oil prices—should stay about flat.

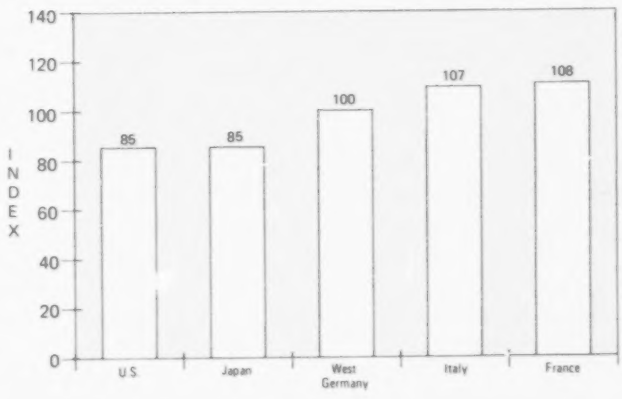
To be sure, oil consumption in the United States is expected to rise slightly this year. However, the increase should be at a somewhat slower rate than that posted in the second half of 1983. This is because the heady business expansion registered in the last three quarters of 1983 is likely to slow, although remaining strong enough to offset further improvement in energy efficiency. But the continued revival in automobile sales and the corresponding increase in the fuel efficiency of U.S. and worldwide auto fleets will keep a lid on gasoline consumption even if motorists drive more and buy larger cars.

. . . But Continued Conservation . . .

Holding down worldwide demand will be the slow economic recoveries in other major countries. What is more, their desire for oil has been and will continue to be curbed—at least for a while—by the high price of oil in their local currencies. Because of the steep appreciation of the U.S. dollar vis-a-vis other currencies—all petroleum transactions in international markets are conducted in dollars—most major industrialized countries did not realize any benefit from last year's cut in the official OPEC price. In fact, while the cost of a barrel of oil fell in February, 1983, from $34 to $29, when translated into German marks, for example, this price cut has been entirely erased over the past year. So, too, the depreciation of the Italian lira and the French franc more than offset this price break in their countries. Italians now pay seven percent more for their oil and the French pay eight percent more (see chart).

Barring unanticipated supply interruptions, petroleum should remain plentiful. Since midyear, OPEC production has exceeded the quota set last March by at least one million barrels per day (mbd). What is more, Saudi Arabia has put about 50 million barrels—readily available but not currently for sale—in floating storage outside of the Strait of Hormuz, close to refining markets. Several of the smaller countries have been anxious to further increase their oil exports to generate revenues to meet payments on external debt and finance domestic development. Nigeria, for example, has been negotiating an increase in exports of up to one mbd from its current quota of 1.3 mbd.

CURRENT OFFICIAL OPEC PRICE OF CRUDE OIL
LOCAL CURRENCY EQUIVALENT
<WEEK ENDING JANUARY 28, 1983=100>



In third-quarter 1983, OPEC production jumped by nearly 14 percent, compared with the March-June period, and was two percent higher than a year ago. In contrast, since 1979, OPEC's annual production average has dropped at rates of 11 to 17 percent per year. Along with sharp cutbacks in domestic imports and development spending, this has resulted in the OPEC countries, as a group, again becoming a net provider of funds to the international financial

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markets. This follows almost two years during which withdrawals by OPEC countries exceeded deposits in Western banks. OPEC deposits amounted to $2.2 billion in third-quarter 1983, while withdrawals amounted to $1.4 billion. In the previous quarter, OPEC balances had plunged by $7.1 billion.

Nonetheless, within OPEC, differences in the financial performance of the various member countries remain wide. Several countries with small populations relative to their petroleum exports have continued to enjoy hefty balance-of-payment surpluses, while several of the more heavily populated oil producers have experienced external payment deficits, necessitating the continued drawdown of existing cash balances.

. . . Will Moderate Demand

Despite the pickup in U.S. consumption, it is obvious that price-induced conservation efforts adopted over the past decade remain an important part of the energy picture. Improving efficiency still has a high priority among American consumers and industry. For example, inflation-adjusted GNP went up 6.2 percent in the fourth quarter of 1983, compared with the same period in the prior year, while total energy use fell 4.4 percent. This means that we are using less and less energy to produce the same level of output. According to the Department of Energy, 45,000 BTUs were needed in the second

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/15/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	156.290	– .446	+13.533
Loans to Depository Inst.	.753	+ .394	– .115
Float	1.139	+ .346	– 1.297
Total Reserve Bank Credit	167.101	+ .264	+11.376
Treasury Deposits with Federal Reserve Banks	4.398	– .312	+ 1.127
Currency Outside Banks**	145.789	– .328	+12.403
Member Bank Reserves:			
Required**	38.858	– .814	– 1.626
Excess (Deficiency)**	.432	– .148	+ .011
Total Reserves Held**	39.290	– .962	– 1.615
Net Borrowed Reserves**	.133	+ .310	+ .419
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.680	+ 4.250	+ 3.429

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	532.9	‡	‡
M2 (January '84)	2,205.9	+ 7.1	+ 9.3
M3 (January '84)	2,721.9	+ 9.8	+ 9.3
Domestic Nonfinancial Debt (3rd Q'83)	5,072.0	+ 11.2	+ 10.4

†Seasonally adjusted.
**Data as of 2/1/84.
*Seasonally adjusted annual rate.
‡Data unavailable due to revisions.

New York Money Market

Offering Rates 2/17/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.05%	9.25%	9.30%
* Federal Agencies	9.25	9.50	10.00
* Project Notes—Taxfree (46% Taxable Equivalent)	9.17	9.26	10.19
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market—Prime	9.65	9.88	10.05

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.40%	Mar.	9.57%
15- 29 days	9.40	Apr.	9.57
30- 59 days	9.40	May	9.57
60- 89 days	9.35	Jun.	9.57
90-179 days	9.20	Jul.	9.57
180-239 days	9.00	Aug.	9.50
240-270 days	9.00		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	9.38%	Effective Rate	9.53%
90-120 days	9.35		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,437r	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,572r	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	4.9r	7.6	– 1.3
Change in Consumer Prices (new series)*	Dec '83	3.6%	3.6%	– 3.6%
Change in Producer Prices*	Jan '84	7.2%	2.4%	– 13.2%
Civilian Employment (Thousands of Persons)†	Jan '84	103,190	102,941	99,154
Unemployment as % of Civilian Labor Force†	Jan '84	8.0%	8.2%	10.4%
Personal Income*	Jan '84n	$ 2,889	$ 2,858r	$ 2,653
Leading Indicators Composite Index (1967=100)†	Dec '83	162.9	161.9	140.9
Industrial Production Index (1967=100) †	Jan '84n	158.1	156.4r	137.4
Net Change in Consumer Installment Credit †	Dec '83n	$ 6.61	$ 4.67	$ 2.42
U.S. Merchandise Trade Balance †	Dec '83	–$ 6.30	–$ 7.40	–$ 3.66
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Jan '84n	1,915	1,666r	1,632
New Construction Expenditures*	Dec '83	$ 275.0	$ 275.5	$ 240.2
Total Business Inventories †	Dec '83n	$ 520.0	$ 518.1r	$ 511.9
Total Business Sales †	Dec '83n	$ 395.9	$ 386.6r	$ 338.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

half of 1983 to produce one dollar of GNP, down from 46,500 BTUs the year before. By contrast, in 1973, it took 59,500 BTUs to produce one GNP dollar. In particular, in 1983, only 19,600 BTUs of oil energy were needed to produce one GNP dollar; ten years earlier, nearly 28,000 BTUs were utilized.

Despite the nation's homeowners' conservation efforts, consumption of home heating oil spiraled upward by eight percent in December, compared with a year ago, temporarily lifting prices worldwide. Since heating oil dealers were unprepared, and domestic refineries were not able to crank up production quickly enough to meet demand, many companies were forced to turn to the spot market.

In New York, prices shot up from less than $33 to over $44 a barrel in just one month, after remaining virtually stable during the first 11 months of 1983. But since the end of January, temperatures have risen, shortages have eased, and prices have retreated by more than $10 to $34 per barrel.

But this jump seems small when one considers how cold the weather was in the last two weeks of December. The number of heating degree days, as reported by the National Oceanic and Atmospheric Administration, jumped 78 percent from the previous year. During the entire heating season to date, consumption fell by 7.3 percent, despite a 17 percent rise in the number of heating degree days. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (2/1/84)	142,046	– 880	–29,261
New York City (2/1/84)	28,360	– 257	–14,437
Commercial Paper (2/1/84)	186,196	+ 352	+18,238

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/1/84)	221,442	+ 1,182	NA*
New York City (2/1/84)	57,802	+ 65	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/1/84)	577,344	+ 7,665	NA*
New York City (2/1/84)	131,474	+ 3,627	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 2/17/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.52%	+ .12	+ 1.27
180-Day Bills†	9.93	+ .21	+ 1.38
Longest Bills†	10.25	+ .35	+ 1.40
Recent Issues:			
10⅝s 1/31/86	10.85	+ .14	
11¼s 12/31/87	11.45	+ .17	
11¾s 11/15/93	11.90	+ .10	
12s 8/15/13	12.03	+ .13	
Municipals:			
Bond Buyer–20 Bond Index* (2/16/84)	9.68%	+ .12	+ .15
Blue List Total ($ Million)	$1,340	– $156	+ $359
30-Day Visible Supply ($ Million)	$2,086	– $208	– $583
Total	$3,426	– $364	– $224
Corporates:			
Moody's Aa Composite (2/16/84)	12.68%	+ .10	+ .16
30-Day Visible Supply ($ Million)	$1,250	+ $213	+ $940
Stocks:			
Dow-Jones Averages:			
Industrials	1,148.87	– 11.83	+ 56.05
Transportation	502.31	– 12.24	+ 21.61
Utilities	124.66	– 2.51	+ .54
65 Stocks	449.91	– 7.00	+ 19.60
Standard and Poor's 500 Stocks	155.74	– .56	+ 7.74
N.Y.S.E. Composite Index	89.59	– .48	+ 4.15
N.Y.S.E. Avg. Daily Vol. for Week (000's)	84,848	–22,076	+ 5,576

* 46% Taxable equivalent 17.93%.

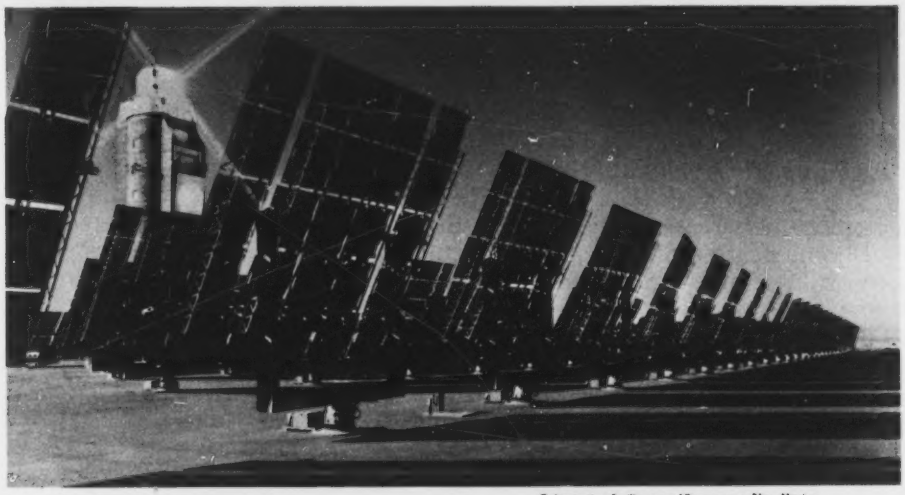
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/17/84	Week Ago
Overnight	9.50%	9.44%
1 month	9.75	9.69
3 month	10.00	9.81
6 month	10.13	9.94
1 year	10.56	10.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.60%	11.50%
Long Term (7 to 15 yrs.)	11.80	11.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/17/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01818	55.00
Canada	.8014	1.2478
Denmark	.1022	9.7875
France	.1208	8.2775
Germany	.3724	2.6852
Italy	.0006023	1660.30
Japan	.004285	233.35
Mexico	.005988	167.00
Netherlands	.3302	3.0284
Switzerland	.4555	2.1953
U.K.	1.4440	.6925



Solar testing facility near Albuquerque, New Mexico.

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